



Managing Public Finance in Burundi

Control, Transparency, and Effectiveness

May 2006

This publication was produced by Nathan Associates Inc. for review by the United States Agency for International Development.

Managing Public Finance in Burundi

Control, Transparency, and Effectiveness

DISCLAIMER

The views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

This is one of a series of working papers produced by Nathan Associates Inc. on behalf of the Regional Economic Development Services Office for East and Southern Africa (USAID/REDSO) under contract no. GEG-I-00-04-00002-00, task order 2, the Burundi Economic Reform and Financial Transparency Assessment Program, 2005–2006.

The objective of the program is to help USAID/REDSO establish an agenda for promoting economic reform and growth as well as financial transparency in the government of Burundi. The Nathan team has investigated—and developed recommendations to address—major economic issues and opportunities that Burundi is facing, emphasizing the appropriate role of the government in the national economy and anticorruption and transparency initiatives. The assessments and recommendations will be presented to government, civil society, and business actors in Burundi, as well as donor representatives, at a conference in Bujumbura in May 2006, and through related information programs.

The author of this report is Salvatore Schiavo-Campo, the team leader for this program. The CTO for this project is Laura Pavlovic (lpavlovic@usaid.gov).

Final reports for the Burundi Economic Reform and Financial Transparency Assessment Program will be made available in both English and French at www.nathaninc.com. For further information or printed copies of these publications, please contact

Bruce Bolnick
Project Manager, Burundi ERFT Program
Nathan Associates Inc.
Bbolnick@nathaninc.com

Contents

Preface	v
Summary	vii
1. Macroeconomic and Fiscal Context	1
Economic Developments Since 2000	1
Key Expenditure Management Issues	2
2. Improving the Efficiency of Public Investment	5
3. Beyond Aggregate Control to Expenditure Integrity and Efficiency	7
Progress to Date	7
The Way Forward	9
Reducing Fiduciary Risk	10
Recommendations	12
4. Building the Capacity of Public Financial Management Institutions	13
General Approach	13
Core Ministries	14
Ministry of Finance	14
Ministry of Planning	15
Focus on Core Competencies	16
Aid Management	16
Investment Programming, Monitoring, and Execution	16
5. External Assistance for Public Financial Management Reform	19
6. Conclusion	21

Preface

This paper evaluates the public financial management apparatus in Burundi against the background of recent history but with a forward-looking perspective. Because public financial management has received substantial donor attention, the paper rests, partly, on the conclusions and ongoing reforms supported by donors (primarily the World Bank, Belgium, DFID, the EU, and France) and the IMF, and does not reiterate the diagnoses and recommendations made in the I-PRSP, IMF PRGF reviews, or other analyses.

Accordingly, we attempt to offer a distinct perspective on those analyses and to point out fundamental public expenditure management issues that have either been neglected or deserve even more attention than they have received. Also requiring special attention are the division of labor between and institutional capacity building in the core ministries—Finance and Planning—as well as budget formulation and execution in the line ministries. Certain recommendations are advanced for financial management reforms that strengthen or complement the progress made in the past three years and the existing package of measures agreed with the donor community. These reforms are relevant not only to improve public financial management systems, but also to combat corruption—for which a weak budget preparation and execution process provides the best opening. This paper therefore ought to be viewed in conjunction with the separate issues paper on fighting corruption and restoring accountability.

Although the main findings and recommendations stem from intensive dialogue with knowledgeable interlocutors and reviews of relevant documents, in the interest of brevity they are presented without lengthy explanations, extensive references, or background considerations.

Summary

Economic improvement after 2003 has provided space for a modest recovery of public investment from its earlier dismal levels. Pending an eventual upswing in private investment, growth and poverty reduction depend on an improvement in public investment efficiency, which in turn will be critical for the effectiveness of aid. Better project selection and closer monitoring will be necessary in this regard, as will the formulation of a public investment program consistent with macroeconomic objectives and administrative capacity.

Second, initial improvements in the budgeting process must be consolidated, including preparation of budget proposals and tightening of their ex ante scrutiny by the Ministry of Finance.

Third, stronger mechanisms for public financial accountability are essential for both the efficient use of resources and the fight against corruption. The focus in this respect must be to provide all necessary assistance to Burundi's audit court while fostering the court's independence from the executive and autonomy in both management and audit operations. Also important will be assistance to raise legislative assembly members' level of understanding about the budget process. A beginning must be made in public accountability as well by enlisting the cooperation of NGOs and civil society in the monitoring of spending and eventually in participation in budget preparation.

A number of budgeting innovations are being introduced or contemplated in Burundi, including a detailed medium-term expenditure framework, elements of program budgeting, and integrated financial management systems. Although these are all worthwhile long-term directions, the current institutional realities of the country mandate a resolute focus on the basics. The expenditure management priorities in Burundi should be to ensure that basic budgeting mechanisms are in place and functioning, expenditure control is consolidated, budget execution is relatively free of fraud and misallocations, and external financial accountability becomes strong enough to change the current culture of impunity. This is already a vast agenda.

To implement this agenda, budgeting capacity and responsibility need to be gradually rebuilt in the line ministries, and some outreach to this end should be extended under the guidance of the Ministry of Finance and the Ministry of Planning for Development and Reconstruction (abbreviated throughout this report as Ministry of Planning). In turn, however, these ministries should refocus on their core competencies. Most important, although the Ministry of Planning carries statutory responsibility for both investment programming and aid management, it has lost the capacity to do either. At the same time, the Ministry of Finance, where aid management is normally located, does not have the authority to manage aid.

The main recommendation of this paper is therefore to allow the Ministry of Planning to concentrate on its core competence of investment programming by relieving it of responsibility for aid management, which should be moved to the Ministry of Finance, which is responsible for budgeting all resources, foreign and domestic. Such a move should be accompanied and supported by major external assistance to the Ministry of Planning for investment programming and to the Ministry of Finance to build aid management capability. However, coordination between the ministries is weak. Therefore, the two ministries should jointly constitute an aid and investment policy group, chaired by the vice president in charge of economic and social matters, to provide guidance and the highest-level political support for coherent investment choices and financing decisions.

A number of other recommendations are consistent with ongoing donor interventions to improve public financial management (which are reasonably well coordinated) but do not duplicate them. The major ones are:

- Initiate the preparation of a medium-term rolling program of all sizeable investment projects, which should include only projects of demonstrated economic viability and be fully consistent with resource availability in the macroeconomic framework
- Convene an ad hoc interministerial group, chaired by the vice president, to identify the main problems in line ministries' budgeting capacity and define an action plan to address them, including incentives for better coordination
- Conduct a series of workshops on public financial management for members of the assembly, starting with the basics and progressing to more in-depth treatment of certain topics (e.g., external audit)
- Establish a small cell in the Ministry of Finance to give special scrutiny to all purchasing proposals of a cost higher than a certain threshold and to give formal clearance for their inclusion in the budget, beginning with the budget for 2007.

Following these recommendations will require sustained technical and material assistance from donors, which should be carefully coordinated with ongoing efforts. Very useful for this purpose will be the partnership framework agreed to in mid-2005 by the government and the EC (which facilitated the framework-building process), Belgium, France, the World Bank, and the ADB, with the full association of the IMF. The government would welcome new partners in this framework.

Remarkable progress has been made in national and interethnic reconciliation and in political governance. There is reason to hope that the same will be true of a gradual return to the reasonably good public management standards of the late 1980s. In Burundi, fiscal management improvements are an investment for the future and will take time. The process should go into higher gear now lest the degraded state of financial management become the operative constraint to growth in two or three years. There are some assets on which to build, with the financial management apparatus still retaining a degree of discipline and service ethos and, most important, a new "sense of the possible" felt among the key actors. Thus, the public financial management situation in Burundi engenders serious concern but not cynicism.

1. Macroeconomic and Fiscal Context

ECONOMIC DEVELOPMENTS SINCE 2000

A before-and-after comparison shows that economic and financial outturns since 2000 have consistently not met targets or expectations. Nevertheless, gradual improvement in Burundi's condition is evident. After a dip in 2003, partly because of renewed security problems, annual GDP growth has recovered to approximately 5 percent and is projected at the same rate in the next few years. Inflation (net of transitional factors) has dropped below 10 percent. The external accounts are about in equilibrium (aided by external assistance), although a small balance-of-payments deficit is projected for 2006–2008. And the fiscal deficit has been kept under control, despite pressure from the security situation and the need to rebuild basic social services (Table 1).¹

Table 1

Selected Macroeconomic and Fiscal Aggregates, 2000–2008

Item	2000	2001	2002	2003	2004	2005 ^a	2006 ^b	2007 ^b	2008 ^b
ANNUAL PERCENT CHANGE									
GDP growth	-0.9	2.1	4.6	-1.2	4.8	5.0	5.0	5.0	5.0
Inflation (yearly average)	24.3	9.3	-1.4	10.7	8.0	16.0	8.0	5.0	5.0
Export volume	5.5	4.9	-20.7	28.8	-10.9	17.0	--	23.0	5.0
Import volume	1.7	4.3	-1.2	25.6	-0.7	32.0	-3.0	3.0	3.0
AS PERCENT OF GDP									
Fiscal balance (incl. grants)	1.8	5.2	1.4	-5.9	-4.3	0.2	1.0	--	—
Domestic revenue	19.2	20.0	20.4	21.1	20.1	18.0	18.6	19.0	19.0
Current expenditure	18.8	21.6	20.6	22.0	22.3	22.3	22.0	20.0	20.0
(o/w, civilian salaries)	3.5	3.9	4.1	4.8	4.8	4.5	4.3	4.5	4.5
Capital project expenditure	6.1	6.4	5.2	13.2	17.0	12.0	11.5	11.5	11.0
(o/w, domestic funded)	1.7	3.4	1.1	4.1	4.9	3.4	3.5	3.5	3.5

¹ This section is repeated from the main overview report, *Reconstruction for Development in Burundi: Guiding Criteria and Selected Key Issues*, to provide macroeconomic context.

^a*Estimated*

^b*Projected—includes an additional 1 percent of GDP as a gross initial assumption of the impact of civil service reform.*

SOURCE: Compiled and adapted from Ministry of Finance, World Bank, and IMF data.

Until 2002, however, the low fiscal deficit did not reflect positive developments, but rather a compression in expenditure, including a drastic decline in capital spending financed from domestic resources, which was offset only in part by an increase in aid-financed expenditure. Overall, public investment declined from 6.4 percent of GDP in 2001 to 5.2 percent in 2002. With net private investment reduced to virtually zero by insecurity and political uncertainty, overall net investment in Burundi had probably turned negative.

Since 2003, however, macroeconomic and fiscal policy has provided more breathing space for public investment expenditure, by means of (1) a less-tight fiscal stance overall, (2) an increase in foreign aid, especially untied budget support, and (3) containment of current expenditure at about 22 percent of GDP. World Bank and IMF support for higher public investment expenditure is justified by the low levels of private investment realistically expected in the next few years, the availability of external financing on highly concessional terms, and the government's progress in controlling aggregate expenditure. In absolute terms, the public investment program of 12 percent of GDP in 2005 is equivalent to only about US\$10 million—and the figure is expected to be marginally lower in the next three years—hardly commensurate with the reconstruction needs of the country. When the macroeconomic situation and the government's capacity are taken into account, however, the macroeconomic targets appear to provide sufficient fiscal space for investment expenditure in the near term. Beyond the near term, it is hoped that private investment will pick up, and it can be expected to do so if peace and security are consolidated, progress continues to be made in governance, and the policy and regulatory environment becomes more predictable.

Burundi does not want for external assistance to support its economic recovery, and the assistance is well conceived for the most part. But who will implement the aid programs and activities? In this paper, we focus on Burundi's low capacity for public financial management. The overview paper (Reconstruction for Development in Burundi: Guiding Criteria and Selected Key Issues) touches on two other dimensions of the problem: the organizational architecture of central government and the dilapidated state of the civil service. The working paper on corruption from this series (Fighting Corruption and Restoring Accountability) gives an initial diagnosis and recommends a direction, but anticorruption efforts must include improvements in public financial management to be effective. The improvements needed are discussed below.

KEY EXPENDITURE MANAGEMENT ISSUES

In Burundi, as noted, the maintenance of aggregate expenditure control is important not only to contain inflation and restore fiscal sustainability—as in the usual paradigm—but also to create fiscal space for higher developmental expenditure for post-conflict recovery and growth, and ultimately poverty reduction. In turn, a more efficient allocation and more efficient use of investment expenditure are required to justify and underpin higher developmental expenditure.

The drastic falloff in investment financed from domestic resources has been reversed to some extent. The impact of public investment on growth and poverty, however, depends on an improvement in its efficiency.² Thus, one of the highest priorities for both public finance and development is to improve the efficiency of public investment by strengthening investment project selection and monitoring and the design and design process of public investment programming. (As discussed later, however, such an improvement also requires better coordination among donors, and some aid management capacity in the government.)

In addition, further improvement in budgeting processes is needed toward integration, efficiency and effectiveness. The top priorities are to improve the preparation of major budget proposals by line ministries and their *ex ante* scrutiny by the Ministry of Finance,³ and to strengthen much further the external *ex post* audit function. These issues are discussed below. Addressing them successfully requires the ministries of finance and planning to focus more sharply on their core competencies as well as selective and realistic institutional capacity building (discussed in section 5).

Beyond the discussion of these key issues and the recommendations made in this paper, a much more systematic and detailed assessment of public expenditure and financial management systems is required to serve as a comprehensive basis for coherent reforms and improvements. The Public Expenditure and Financial Accountability (PEFA) program, supported by the World Bank, IMF, EU, DFID, France, Norway, and Switzerland and with a secretariat at World Bank headquarters, in late 2003 produced a comprehensive approach to assessing public financial management systems. The approach has since been refined into a detailed assessment methodology. Preliminary discussions have taken place between the EC, France, and the World Bank on applying the PEFA framework in Burundi.

The first general recommendation of this paper is thus for the government to ask the main donors for support in conducting a PEFA-type assessment as soon as practicable, with technical advisory support from the PEFA secretariat at the World Bank.

² It is surprising that neither the Bretton Woods institutions nor the other major donors have highlighted this issue, so central to the effectiveness of aid and public expenditure and so critical for development and poverty reduction.

³ Among other problems, inflated estimates for purchases of certain goods and services easily enter into the budget, subsequently providing the financial wherewithal for procurement at grossly excessive prices, as explained in the paper on corruption.

2. Improving the Efficiency of Public Investment

The top priorities for improving the efficiency of public investment are to raise the quality of large projects and ensure the economic and financial coherence of the investment portfolio. A quick look at the strong and weak points of the system in the early 1990s is useful. The World Bank's 1992 Public Expenditure Review for Burundi⁴ gave substantial attention to public investment. The three-year rolling investment programming process was already in place. Criteria for including projects had been specified and disseminated. And the government had issued guidelines to require consistency between projects and sector policy, completion of feasibility studies, identification of sources of financing, and even estimation of recurrent costs. Progress was seen to depend mainly on closer collaboration among donors and between donors and the government, strengthening of government capacity to prepare the PIP, establishment of an interministerial committee for review of projects at the technical level before finalization of the investment program, and ensuring that the projects would be fully reflected in the government's consolidated budget. Clearly, the process of effective and affordable programming of public investment was well underway.

Fifteen years later, the institutional and human capacity that produced those encouraging developments has virtually disappeared. A small number of committed officials and staff remain in the Ministry of Planning, but the capacity to prepare projects has been lost in the line ministries; the technical criteria, still in existence on paper, are neglected; and the consistency of projects with sector policies is precluded by the fact that there have been no sector policies or even an indication of general sector priorities—at least until the past couple of years. Burundi's government has lost the capacity to meet any of the requirements for efficient public investment.

On the positive side, as a result of the dialogue with the Bretton Woods institutions during the past three years, project expenditure is included in the now-consolidated budget. This step ensures that public expenditure is recorded accurately, in the interest of painting a reliable fiscal picture and thus of sound macroeconomic programming. It also possibly facilitates project execution by improving the predictability of budgetary resources, but does little to ensure

⁴ Report No. 8590-BU, February 1992.

efficient investment decisions to begin with. A medium-term program of sizeable projects is needed that

- includes only projects of demonstrated economic and social worth;
- has assured external financing; and
- carries local expenditure requirements consistent with domestic resource availability.

Donor preparation and economic appraisals of aid-funded projects have filled the gap in capacity. The country's immediate recovery and reconstruction requirements have been so evident and urgent that individual donor-assisted preparation and appraisal of projects has sufficed to launch sound projects. However, even assuming the best coordination in the PRSP process, individual project appraisals cannot adequately take into account positive and negative externalities, preclude duplication, or prevent gaps.

Nor does the central government any longer have the capacity for physically monitoring investment execution. Financial monitoring is the Ministry of Finance's responsibility, but physical monitoring is left to each line ministry in cooperation with the donor concerned. Although the establishment of project implementation units has been and will continue to be necessary in the foreseeable future, such special arrangements cannot continue indefinitely as a substitute for effective and transparent implementation of government projects by the government.

Neither programming coherence nor the need for government ownership can permit this donor-driven state of affairs to continue indefinitely. In three or four years, Burundi's government should have recovered its own capacity to take investment decisions, oversee project preparation done by other entities, program the investment portfolio to fit both financial realities and the government's own development priorities, and monitor both the financial and the physical execution of public investment projects. For such capacity to be in place at that time, efforts to build it must be undertaken now. A number of recommendations to that end are advanced in section 4.

3. Beyond Aggregate Control to Expenditure Integrity and Efficiency

According to the familiar taxonomy, the three objectives of public expenditure management are expenditure control, efficient allocation of expenditure, and good operational management.⁵ These correspond loosely to the three overall economic policy goals of stability, growth, and equity. Financial stability calls for, among other things, aggregate expenditure control; economic growth and equity are pursued partly through efficient resource allocation in conformity with government policy in the sectors; and all three goals require good operational management. Good operational management in turn calls for both efficiency (minimizing cost per unit of output) and effectiveness (achieving the outcome for which the output is intended), but in addition, good governance and sustainability require attention to proper norms and due process.

From an administrative viewpoint, aggregate expenditure control requires well-functioning core ministries of finance and planning; a good allocation of financial resources needs coordination among line ministries and between line ministries and core ministries; and operational effectiveness is largely a function of the quality of the rules for budget management as well as the internal capacity in each line ministry. Framing the issue in this manner helps summarize the current state of affairs in Burundi's budgeting systems and practice.

PROGRESS TO DATE

In 2002, the consensus among the government and donors on the public financial management system⁶ highlighted severe institutional and administrative problems:

⁵ This classification was first suggested by J.E.Campos and S. Pradhan (*The Impact of Budgetary Institutions on Expenditure Outcomes*, Policy Research Working Paper, World Bank, 1996). It has since been expanded and refined by various authors and analysts—primarily warning that budgetary reality is often not amenable to easy generalization. (See, for example, A. Premchand's "Umbrella Themes Obscure Real Problems," *Public Budgeting and Finance*, no. 3, 1998.) However, the classification remains useful as a prism through which to view expenditure management developments.

⁶ E.g., by the World Bank (in the appraisal document for the Economic Management Support project), the UNDP (in its program of support for good economic governance), and others.

- The tools and procedures for revenue administration and expenditure management were obsolete or altogether forgotten.
- Medium-term expenditure forecasts were nonexistent.
- The budget preparation process was purely mechanical.
- Extrabudgetary funds and accounts had proliferated, partly because of the vicious circle of weak accountability–fund earmarking–low incentive to improve accountability.
- In budget execution, the observance of physical and financial monitoring procedures went from haphazard to nonexistent.
- Internal and external audit had practically disappeared.
- Human resources in the Ministry of Finance, the Ministry of Planning, and the budget offices of the line ministries had become sparse, older, and unmotivated, with basic skill gaps evident.

Since then, as part of and conditions for the international support for the peace process and the transition to representative government, several of these problems have been remedied. Actions have been taken on the revenue side, mainly the introduction of a single taxpayer identification number.⁷ Significant measures have also been introduced in the past three years to improve expenditure control and financial transparency—the most important of which is the ongoing integration of extrabudgetary funds into a newly consolidated budget, beginning with the budget for 2006.⁸ The Ministry of Finance, too, has been able to assemble a budget consistent with foreseeable resources and to monitor its execution—albeit in the limited sense of ensuring that actual expenditure is close to the budgeted amount. And debt-management capacity has been brought from nonexistent to minimally adequate, with DFID support, buttressing the case for HIPC debt relief.

Thus, some progress has been made in the past three years in achieving the first objective of public expenditure management—aggregate expenditure control. Little or no progress has been made toward the other two major objectives of expenditure management—strategic resource allocation in conformity with government policy for the various sectors and sound operational management leading to efficiency and effectiveness in resource use. It would be utterly unrealistic to expect otherwise, given the damage inflicted by the civil war on Burundi's physical, social, and institutional capital, the short time since the conflict ended, and the even shorter time since the transition to representative government. The depleted capacity of line ministries is hardly conducive to preparing budget proposals in line with government sector policies (which are in any case either nonexistent or in flux), let alone to cooperating with one another and with

⁷ Nevertheless, the challenge of ensuring a tax base corresponding to economic realities, combating widespread tax evasion, and—eventually—moving to a more elastic fiscal structure remains.

⁸ The only exception is the road fund, continuation of which is part of a World Bank infrastructure improvement program. The administration of the road fund, however, is expected to benefit from the lessons of experience on the inefficiencies and risks of the road funds common in the 1980s.

the Ministry of Finance. These capacity problems, when added to inadequate accountability mechanisms and extremely weak compliance with rules, not only preclude the efficient use of resources but are insufficient to even prevent widespread misappropriation of resources.⁹

THE WAY FORWARD

The other two objectives of expenditure management should gradually receive more attention as expenditure control is consolidated. Indeed, mere fiscal discipline in the presence of arbitrary resource allocation and inefficient or corrupt operations is inherently unsustainable. Good aggregate budgetary outcomes should emerge from good outcomes at each level of government: although expenditure control must ultimately be manifested at the aggregate level, it should emerge as the sum of good expenditure control at in each ministry and agency of government, rather than from exclusive reliance on Ministry of Finance directives.

However, despite the progress made, budget preparation remains largely a top-down affair. A sound overall budget emerges partly from the iteration between top-down expenditure ceilings and bottom-up budget proposals from the line ministries and agencies. Now, the capacity to prepare a realistic, efficient budget is extremely weak, with few exceptions. Improving the effectiveness of the public expenditure management apparatus as a whole will require progressively strengthening the budgeting capacity in each line ministry through improved skills and resources and greater transparency and accountability.

Improved operational management of budgetary resources will also require an eventual revision of budget management rules in the direction of greater flexibility accompanied by stronger accountability. The time is not yet ripe for such flexibility, however. Eventually, too, the performance orientation of the budget system will need to be strengthened, by selective introduction of results indicators and the beginning of a systematic dialogue on previous year's performance as part of the preparation of the budget for the following year. Finally, an informed and assertive role of the legislature will become increasingly important for Burundi's recovery and development. This will call for a variety of capacity-building and training activities, such as information sessions on the budget process; targeted training events, resource provision to the assembly committees responsible for budget oversight, etc.

Addressing all these issues will be a complex challenge in the medium and long terms. In Burundi, many of these improvements are a long way off and should not even be considered until basic budgeting mechanisms are in place and functioning, expenditure control is attained, and budget execution is relatively free of fraud and misallocation.

Long before the notion of medium-term expenditure framework (MTEF) was introduced and became an obligatory item on reform checklists, assessing the effectiveness of external budget support was understood to be difficult without information about the entire public expenditure

⁹ See the paper on anticorruption.

program in the medium term (not only investment, but recurrent costs, subsidies, etc. as well).¹⁰ Accordingly, structural adjustment loans in the late 1980s pushed for comprehensive, three-year rolling public expenditure programs prepared by line ministries—“based on program objectives rather than on individual projects and associated recurrent costs ... and with the addition of recurrent expenditures and operating charges.”¹¹ The approach was similar to that of MTEFs. Although the PEP paradigm did not take as endogenous starting point the medium-term revenue forecast, as the MTEF explicitly does, in practice the co-existence of adjustment programs and IMF support meant that public expenditure programs had to be consistent with the medium-term revenue constraint derived from the IMF estimates. Fifteen years ago, the government of Burundi had already agreed to a detailed plan of action for implementing such an expenditure programming system by the end of 1992, but the action plan was not carried out because of the conflict.

The long-term vision should remain as it was delineated fifteen years ago. But in Burundi’s current situation, it is advisable to scale back those ambitions while holding to the heart of the matter: a formal and detailed bottom-up MTEF is neither necessary nor desirable at this time, but a clear perspective on expenditure for the medium term, on a rolling basis, is essential for the preparation of Burundi’s annual budget.

So far, the medium-term fiscal and expenditure perspective has been provided mainly by donors. In a continuing government–donor partnership, the government should progressively assume greater responsibility for formulating the medium-term perspective, in realistic consultation with private sector and civil society stakeholders. But a sound medium-term expenditure perspective begins with reliable revenue forecasts. It is a matter of concern, therefore, that despite the apparently good correspondence between revenue forecast and revenue collected, tax and customs revenues are significantly below potential, owing to widespread evasion (this topic is also discussed in the anticorruption paper).¹²

REDUCING FIDUCIARY RISK

In recent years the major international development agencies have become concerned about the fiduciary risk of development assistance, partly but not exclusively in relation to the HIPC process. The notion of fiduciary risk in public expenditure is grounded on basic governance principles. In representative government, no funds can be mobilized from the citizens, or spent, without the explicit approval of elected representatives. Thus, the executive branch has a fiduciary responsibility vis-à-vis the country to ensure that the budget is executed as approved by the legislature, and “fiduciary risk” can be defined as the risk that government expenditures diverge from those authorized in the budget.¹³ In this sense, fiduciary risk in Burundi was high

¹⁰ And long before that, the IMF had framed its lending in a five-year medium-term framework that included aggregate revenue and expenditure projections.

¹¹ World Bank, Burundi PER, 1992, p. 30.

¹² The Tax Department does not even know the exact number of taxpayers.

¹³ World Bank definition (Guidelines for Country Financial Accountability Assessments).

until recently, but has been reduced somewhat by a variety of measures advocated by the international community.

Other definitions of fiduciary risk (for example, DFID's definition) are more expansive and add to the risk of misappropriation and misallocation the risk that the budgeted resources are wasted or spent ineffectively. By this broader definition, Burundi's public financial management has a long way to go before fiduciary risk can be brought down to acceptable levels—because efficiency and effectiveness call for longer-term and sustained capacity-building measures, as noted earlier.

Misappropriation and misallocation of resources inevitably occur during budget execution. In Burundi, procedures for monitoring and overseeing the execution of expenditure approved in the budget are not yet strong enough to ensure that actual expenditure corresponds with the budget approved (except in the aggregate). For this reason, in the policy program that the government agreed to with the World Bank, the bank has rightly emphasized expenditure tracking—to measure the extent to which budgeted resources reach the intended beneficiaries, identify the source of any leaks, and make recommendations to plug the leaks. It is recommended that the initial expenditure tracking pilots be expanded to other programs and gradually move beyond the core objective of verifying that budgeted expenditures reach the intended beneficiaries to ascertaining whether the services were provided in a reasonably efficient manner. Service users' feedback will be invaluable in this respect.

Also very important is strengthening of the external audit function, exercised in Burundi by an audit court (*cour des comptes*) following the continental Europe model.¹⁴ Historically the audit court functioned in Burundi as an instrument for retaliation and harassment rather than as an instrument to foster financial accountability and integrity and rule compliance. A law to revitalize the audit court—based on the Belgian and French models, but incorporating some practices of Francophone West Africa—was drafted and presented to the legislature in March 2003. The audit court, however, was not established for another two years. Its first major task was to audit the government's financial statements for 2004 and publish its report. Although external audit is again functioning, the court's investigative and analytical capacity is at an infant stage. The importance of external audit for public integrity and efficient use of resources is so critical that strengthening the external audit function ranks among the highest priorities for financial

¹⁴ In countries of the Anglo-Saxon tradition, external audit is not exercised by a judicial entity, but by an office of auditor general or similar title. The essential characteristics of effective external audit, however, are the same—full autonomy (including for internal budgeting, procedures, and staffing); open access to any budgetary document at any time; and a direct reporting relationship to the legislature rather than to the executive. However, the external audit function is limited to investigating, reporting, and publicizing; follow-up is the responsibility of the political system and the judiciary.

¹⁴ World Bank definition (Guidelines for Country Financial Accountability Assessments).

management reform in Burundi. This is true regardless of the placement of the audit court in the institutional landscape of the country.¹⁵

RECOMMENDATIONS

Significant reforms in public financial management are already underway. We recommend, however, complementary actions to improve budgeting processes in three areas: (1) budgeting capacity in the line ministries, (2) legislators' understanding of the budget process, and (3) prior scrutiny of expensive procurement proposals.

Budgeting capacity in the line ministries. The vice president charged with economic and social affairs should convene an ad hoc interministerial working group to identify the main constraints on line ministries' budgeting capacity, assess their actual situations, and formulate realistic proposals for gradual improvement. These proposals may entail additional resources, but only in the context of better coordination, stronger internal accountability, closer monitoring of budget execution, and attention to actual service delivery—including possibly opening new channels for “voice” by service users.

Legislators' understanding of the budget process. Also recommended is a series of workshops on budgeting for members of Parliament, starting with the basics of public expenditure management and eventually addressing specific topics (e.g., external audit) in greater depth, both to inform Parliament of these processes and to provide a mechanism to generate concrete requests for capacity-building assistance to the legislature in budget preparation and oversight.

Prior scrutiny of expensive procurement proposals. Closer scrutiny of expenditure proposals is necessary—and possible in the immediate future—to determine the soundness of the proposed procurement, the need for and expected use of the goods, the unit price, availability of budget funds, and respect for legal requirements. A small cell should be established in the Ministry of Finance on a temporary basis, with external support and participation, to scrutinize all purchasing proposals with a cost higher than a certain threshold to be determined and to give clearance for their inclusion in the budget, beginning with the budget for 2007. This scrutiny could be accompanied by a procedure for spot-checking smaller proposed contracts to prevent contract-splitting.

¹⁵ The constitutionality of the audit court has been questioned, but the available information is not sufficient to permit comment. In any event, the autonomy, integrity, and competence of the external audit function are paramount.

4. Building the Capacity of Public Financial Management Institutions

GENERAL APPROACH

The term “capacity building” has been so overused that its meaning and limitations must be redefined. First, the question “capacity for what?” must be answered. In Burundi, the degradation of expenditure programming, budget preparation, budget execution, and financial control systems caused by the conflict mandates a resolute focus on capacity to manage the basic functions.

Taking into consideration this need to focus on the basics, capacity building for the public finance function in Burundi should adopt four kinds of measures—measures to improve (1) the institutional rules and incentives (both formal and informal) governing the behavior of individuals in the public expenditure management apparatus; (2) the organizational structures that enforce and implement those rules; (3) the flows of budgeting information and other information within the government and from the government to the public (and vice versa); and (4) the adequacy of financial and human resources in the core ministries of finance and planning, and in the line ministries responsible for the various sectors. The vice president charged with economic and social matters is best placed to play the leading and oversight role in all expenditure management capacity-building, in all these respects.

Institutional development. The top institutional development priority is to establish and enforce new rules to require systematic dialogue and cooperation between the core ministries of Finance and Planning, and between line ministries and the Ministry of Finance for the current budget and the Ministry of Planning for investment proposals.

Organizational structures. The structure of the Ministry of Finance appears in line with normal practice in other developing countries, as discussed later. The organizational structure of the Ministry of Planning, however, requires careful review focusing on rebuilding the ministry’s capacity to deal with investment efficiency. The structures of the line ministries, too, would benefit from review to ensure that they are consistent with a realistic formulation of budget proposals and robust internal scrutiny.

Information development. Adopting information and communications technology (ICT) can improve the flow of information and reduce its cost (including the transaction cost for obtaining information) substantially. ICT is not a panacea, however, nor should it be managed without close

oversight by the information users. In this area, too, it is important to tailor the innovation to realistic objectives and the system's ability to absorb them. . This writer has argued for years that it is neither necessary nor desirable to try to cover with a single integrated computerized system the entirety of fiscal and financial transactions. Now, a recent IMF study has found that financial management information systems in developing countries have been “almost a universal failure”—costlier and more time consuming than originally envisaged.¹⁶ Such systems often produced benefits lower than their costs and occasionally have provided less transparency and reliability of information than the simple older systems.

These findings confirm the waste and confusion produced by introducing systems and processes unsuited to local administrative and institutional realities and are a warning of the risks of following fashion in public management reform. Taking into consideration the need for other essential reforms, Burundi first must take steps to ensure the reliability and reasonable timeliness of single-entry bookkeeping in simple spreadsheet software or even manually, with simple cross-checks. (In any case, until and unless the integrity of the underlying data is assured and verified, computerization typically results only in making mistakes faster and less transparent.) The only valid meaning of “best practice” is the practice that meets users' needs and the realities of a country's situation.

Adequacy of financial and human resources. After the institutional and organizational review, the Ministry of Finance should ensure that sufficient financial resources are provided to each line ministry to prepare its budget proposal and monitor budget execution. Also, the Ministry of Planning should provide guidance and support for skill development, through training and other forms of knowledge transfer, focusing on the staff's actual functions. Although generic training in budgeting principles and practices (as recommended later) is appropriate in some circumstances, training should otherwise center on specific skills determined by comparing a staff member's actual skills with those required for better performance in a current or prospective job.¹⁷

CORE MINISTRIES

Ministry of Finance

The functions and organizational architecture of the Ministry of Finance are fairly standard, with the significant difference that the *Inspectorat General des Finances*, responsible for internal audit, is located in the Ministry of Good Governance. (See the paper on anticorruption for an explanation of this question.) The problems therefore do not arise mainly from the organizational

¹⁶ Jack Diamond and Pokar Khemani, *Introducing Financial Management Information Systems in Developing Countries*, IMF Working Paper, Report WP/05/196, October 2005. Of course, this criticism does not diminish the need to adopt uniform standards for computerization and to ensure the purchase of compatible equipment. Good procurement practices come to the fore once again.

¹⁷ New skills that are not used on the job are lost quickly. At best, unfocused training is a waste of time and resources. At worst, it corrodes staff morale or facilitates staffers' departure for pursuits where they can use their new skills.

structure weakness, but from procedural and staffing weaknesses. Not surprisingly, coordination and the flow of information between the Ministry of Finance and the other ministries leave much to be desired as well.¹⁸

The Ministry of Finance currently comprises some 250 employees (not including customs). Its workforce is thin and unmotivated at higher levels (except for some of the top officials), and drifting and underskilled at lower levels. The general erosion of staff and skills in the Burundi government, not only because of the conflict but because of the much higher compensation offered in Rwanda more recently as well, is well known and has affected the Ministry of Finance as much as the rest of the government. Issues of capacity building in the Ministry of Finance are thus no different than systemic capacity building and civil service issues in general.

A staffing audit is nevertheless recommended. Furthermore, a specific training program for recruits needs to be elaborated targeting the key functions of the ministry. Much more reflection and detailed consideration will be needed to formulate a realistic and well-sequenced action plan in this respect.

Ministry of Planning

Even back in the late 1980s the Ministry of Planning lacked real authority and decision-making capacity. Then as now, "...the Ministry of Planning has acted more as a powerless observer than as an agent of the development process...attention needs to be drawn to certain shortcomings in three areas: planning and coordination of development activities, project monitoring and evaluation, and coordination of external resource mobilization."¹⁹ Then as now, the main reason went unrecognized: an overly broad mandate. As stressed earlier, capacity is a relative notion, and capacity problems flow more often from too many or unrealistic objectives than from any other cause.

The current structure and mandate of the ministry go back to 1998, before the transition to peace and the policy reform program. Its functions include, in addition to responsibility for public investment projects and programming, the elaboration of a long-term development strategy, macroeconomic forecasting, mobilizing and monitoring external financing, coordination of technical assistance programs, and other functions. Specifically, the ministry includes among its four major departments a department for project financing and administration—which is in effect an external aid management entity, but is currently not functional.

Perhaps in part because of the excessive mandate and complex organization, little external assistance has been provided for the Ministry of Planning, except for a small project by the

¹⁸ Evidence of a lack of coordination abounds. For example, the Ministry of Public Works is not even informed of (let alone consulted about) other ministries' requests to the Ministry of Finance for renovation or new construction—although it is responsible for carrying them out.

¹⁹ Ministry of Planning, *Politique sectorielle du Ministère du plan*. May 1988, p. 2

African Development Bank and for the macroeconomic modeling component of the World Bank PAGE project, and none at all for the core functions of the ministry.

FOCUS ON CORE COMPETENCIES

Let's take one last cue from the old World Bank PER: "The division of responsibilities between the Planning and Finance ministries needs to be redefined, with the Ministry of Planning taking the lead on medium-term macroeconomic prospects and investment programming..." (viii). This action, appropriate in 1992, is even more pertinent under the current situation of depleted institutional and resource capacity in both ministries.

However, considering also the need for greater government assertiveness in managing the flows of external aid, such division of responsibilities must be accompanied by a complementary measure: reassigning responsibility for aid management from the Ministry of Planning to the Ministry of Finance. In a nutshell, the Ministry of Finance is best placed to handle the management of aid but lacks formal authority; the Ministry of Planning is best placed to handle project preparation and investment programming, but no longer has the capacity to do so. Because the weak position of the Ministry of Planning is clearly due in large measure to its excessive mandates, it is essential to underline that a shift of responsibility for aid management out of the Ministry is very much in the interest of reasserting its authority and capacity in the other critical areas – primarily public investment.

Aid Management

Contrasted with formal or informal mechanisms of coordination among donors, aid management is a core function of the host government: if foreign assistance is not managed by the government, competition among individual donors' risks reducing the overall effectiveness of aid, destroying budgetary integrity, and precluding improvements in administrative effectiveness.

Because foreign aid must be integrated with domestic resources into a unified budget, and the budget must reflect national policy and priorities as well as what is affordable, the Ministry of Finance is the best location for aid management in the central government. "Aid management" entails coordination, regulation of donor traffic, and facilitation—not prescriptive authority vis-à-vis the line ministries. Accordingly, aid management should be entrusted to a competent but small unit. It is therefore recommended that a small aid management unit be created in the Ministry of Finance, reporting directly to the *chef de cabinet*. External support for the aid management unit—advice, programmatic technical assistance, and material resources—is essential to launch and sustain it until the unit can be fully integrated into the structure of the Ministry of Finance.

Investment Programming, Monitoring, and Execution

The central challenges for the Ministry of Planning are to rebuild government capacity to select and prepare investment projects, and move to "second-generation" investment programming that is both affordable and developmental. The ministry will be able to focus on this challenge when it is no longer burdened with the need to keep track of donors, project negotiations, and aid flows. Thus, the flip side of the reassignment of aid management responsibility to the Ministry of Finance is the need to strengthen the authority of the Ministry of Planning for project preparation,

investment programming, and physical project monitoring—while relieving the ministry of responsibility for managing projects directly.

Some support is already provided, but it is hardly commensurate with the vast challenge of reengineering procedures and enforcing criteria and supervision to ensure the efficiency of individual investment projects and of the investment program as a whole. Substantial additional external assistance will be needed to support the units in the Ministry of Planning responsible for this agenda. The assistance initially should target improving the ministry's capacity to review the preparation and execution of major projects for soundness but should move rapidly to support the formulation of a developmental and affordable public investment program on a rolling basis.²⁰

While improving investment preparation and execution is the priority, in due course the government will also need the capacity to evaluate the outcomes of investment projects. Moreover, the restoration of basic social service provision should incorporate attention to results and user feedback. These activities are also among the core competencies of a ministry of planning. Thus, it is recommended to create a small evaluation cell in the Ministry of Planning to guide the gradual introduction of realistic result indicators in selected line ministries, in a participatory manner and with a view to progressive expansion to other programs and ministries. (Modest external advisory support would be required.)

Splitting the responsibility for investment decisions from the responsibility of coordinating the financing would allow both ministries of finance and planning to work to their full comparative advantage. Doing so carries risks as well, however, as the habits of interministerial coordination and cooperation are insufficiently developed. In addition, the aid strategy and profile must reflect overall government policy, and not only short-term financial considerations. Therefore, it is recommended that an interministerial aid and investment policy group, chaired by the vice president in charge of economic and social matters, be created to provide highest-level political guidance and backing both for the aid management function of the Ministry of Finance and the investment programming function of the Ministry of Planning.

²⁰ The Public Investment Program for 2004–2006 is a relic of the first-generation PIPs common in the 1980s—essentially a wish list, not a program—without reference to resource availability, unified sector strategies, adequately prepared project proposals, or links to the annual budget. Second-generation PIPs are stringent programming exercises, including only sound projects with assured financing, taking into consideration intersectoral linkages, and capable of being implemented with existing government capacity. For a comparison of PIPs, see S. Schiavo-Campo and D. Tommasi, *Managing Government Expenditure*, Asian Development Bank, Manila, 1999.

5. External Assistance for Public Financial Management Reform

Assistance for macroeconomic management in Burundi is provided by the World Bank, EC, France, Belgium, and the UNDP. The largest single intervention is that of the World Bank. After some initial improvements in financial management made in the context of and with the support of the 2000 Emergency Recovery Credit, the World Bank approved the sizeable Support to Economic Management project (*Projet d'Appui à la Gestion Economique*—PAGE). The project is intended to finance mainly improvements in macroeconomic modeling, the budgeting process, and revenue administration. The EC finances a support cell in the Ministry of Finance to provide training, mainly in project management, and will also continue to provide general budget support of about \$40 million over three years. France focuses its economic -management assistance mainly on tax and other revenue administration, equipment provision, and support for the statistics institute ISTEUBU. Its training activities consist mainly of long-term training of three Ministry of Finance staff members. Belgium, in addition to individual assistance activities, has helped finance Ministry of Finance salaries to free up funds for the purchase of needed equipment. The African Development Bank supports a project for statistical upgrading and assistance to the formulation of the medium-term macroeconomic framework. The UK DFID has provided assistance to improve debt management capacity. And the UNDP has supported a variety of technical assistance through a good governance project.

Donor interventions in public financial management in Burundi are reasonably complementary, and—so far—there is little duplication of efforts. Indeed, donor coordination appears better in this area than in other areas of assistance. Regrettably, the regular donor meetings held in most countries, usually organized by the World Bank, do not take place in Burundi, nor have concrete efforts been made to support the requisite counterpart aid management capacity in the government.

In summary, besides the assistance activities already ongoing or envisaged for public financial management reform, and assuming that the mandates of the Ministry of Planning and the Ministry of Finance are redefined according to our recommendations, the following assistance possibilities stand out as desirable:

- Sustained technical and material assistance to the Ministry of Planning to rebuild its capacity to evaluate project proposals, formulate investment programs, and monitor project execution
- Assistance to the Ministry of Planning in establishing a small cell to guide the gradual introduction of simple performance indicators and basic methods of evaluation

- Assistance to the Ministry of Finance in setting up and supporting an aid management unit capable of regulating donor traffic, preventing duplication, and facilitating donor–line ministry cooperation
- Assistance to the Ministry of Finance in setting up a small transitional cell to scrutinize purchase proposals costing more than a limit to be specified and to clear proposals for inclusion in the budget
- Assistance to the ministries of Finance and Planning in organizing joint workshops on expenditure management and budgeting
- Assistance to line ministries in preparing sound, realistic budget proposals, gradually bringing all line ministries to the same level to permit arbitration of equally well designed budget proposals
- Informational and capacity-building assistance to the Parliament in the exercise of its role in budgetary matters.

These efforts should be coordinated with other ongoing or envisaged initiatives in public financial management. Very useful for this purpose will be the partnership framework agreed to in mid-2005 by the government and the EC (which facilitated the framework-building process), Belgium, France, the World Bank, and the ADB, with the full association of the IMF. The government would welcome new partners in this framework.

6. Conclusion

Remarkable progress has been made in national and interethnic reconciliation and political governance in Burundi. There is reason to hope such progress will also be made in the return to the reasonably good public management standards of Burundi in the late 1980s. But institutional reconstruction needs to accelerate so that the needed systems, procedures, and personnel are in place when political and financial circumstances are right for a more strategic allocation of resources and for increased efficiency and effectiveness in public service provision. Improvements in public expenditure management are an investment for the future and will take time to be implemented. Thus, the process should accelerate now lest the degraded state of financial management become the operative constraint to growth in two or three years.

Burundi still has assets on which to build. At its center, the public financial management apparatus retains a degree of discipline and service ethos. Staff are at their posts, documents are found, fairly reliable statistics exist, requests for information are met, and new government leadership in economic management is committed to a process of institutional improvement with neither illusion nor defeatism. Perhaps most important, although intangible and impossible to demonstrate, is a new sense of the possible among the key actors. Thus, by contrast to many countries in sub-Saharan Africa, the Middle East, and Southeast Asia, the public financial management situation in Burundi engenders serious concern but not cynicism.